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¶1. (U) IMF Visit

IMF Managing Director Dominique Strauss-Kahn met with President Fernandez and his economic team on December 8 during his first visit to the Caribbean region. In a press statement issued at the end of the visit Strauss-Kahn said &the discussions focused on the need to return to a financeable fiscal position in the face of tight world credit markets, while ensuring that macro-policies do not exacerbate an emerging slowdown in economic activity.8 The Government portrayed the visit as an endorsement of their current policies and discounted calls from the private sector and opposition parties for another IMF agreement.
¶2. (U) Fernandez Speech on Economic Crisis

On December 8, President Fernandez gave a televised address to the nation on the global economic crisis and the impact on the DR. Fernandez announced a controversial plan for the government to begin using pension funds to finance housing and other infrastructure projects. The National Council of Private Enterprises opposes the plan as do some of the opposition parties. Fernandez also announced the creation of a public-private commission to strengthen the energy sector, but did not mention enforcement of the electricity theft law. (Note: The members of the commission were appointed on December 15 and do not include any representatives from the energy sector. End Note) At the end, he noted the problems of increasing crime and drug trafficking and called for a domestic summit in January to address these issues. In regard to protecting the airspace from narco-traffickers, Fernandez said that in addition to the purchase of Super Tucano airplanes from Brazil, the DR would also acquire two radar systems.

¶3. (SBU) Energy Sector Update

The GoDR paid USD 35 million to Compania de Electricidad de San Pedro de Macoris (CESPM) in mid-November, bringing that plant back on line and averting the activation of an Inter-American Development Bank loan guarantee. Nonetheless, the GoDR,s total deficit to the sector remains close to USD 500 million. The country,s largest generator, AES Dominicana, paid for a large natural gas shipment to arrive

on January 5, but cancelled a December coal shipment and is rationing production at the Itabo coal plant. Meanwhile, members of the Senate Energy Committee have called for a USD 2 billion public bond issue to fund the construction of two 600 MW coal-powered electricity plants. Radhames Segura, executive vice president of the Dominican Corporation of State-Owned Electricity Companies (CDEEE), told the press that he supported this proposal and complained that private companies have failed to take up this initiative despite the government,s willingness to facilitate the plants since ¶2004. However, President Fernandez told the Ambassador that he has a long-term strategy to invest in a natural gas-fired electricity plant, not coal, because there is no funding for the coal projects and the contruction itme is longer (Ref). The Senate Energy Committee also said it would review CDEEE contracts with the private generators after the holidays, making particular note of the Madrid Accord contracts. These contracts, signed in 2001, are indexed to the price of fuel in such a way that the margin of earnings for generation grows as fuel prices increase. Past calls for renegotiating the contracts have met no success.

¶4. (U) Job Losses in Mining Sector

Xstrata Niquel, a Swiss-owned mining company (formerly Falconbridge, although it is still called that locally) announced the layoff of 900 employees. The company,s ferro-nickel mine has been closed since August due to the high cost of production and falling global demand for nickel. President Fernandez met with employees and company executives on December 11 and promised the government would provide pensions for workers over the age of 50; cover debts

at the company credit union; and provide jobs for 200 workers at a new tourism investment project that broke ground in Punta Cana.

¶5. (U) Textile sector loses more jobs

On December 14, Grupo M, the largest textile employer in the DR announced that 2,700 employees would be laid off. The President of Grupo M, Fernando Capellan, said the company was forced to make the cuts as a result of the high cost of production in the country and the effects of the recession in the United States. Over the last few years the Dominican textile sector has been declining in the face of global competition. According to U.S. Department of Commerce statistics, Dominican textile exports to the U.S. fell 20 percent between October 2007 and October 2008.
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